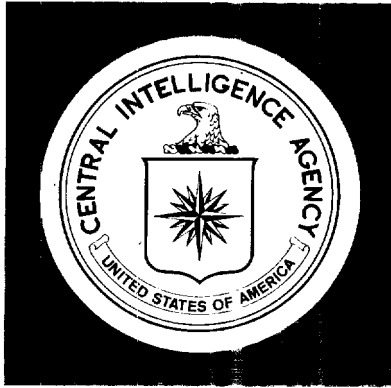


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Intelligence Report

The Panama Canal Negotiations
A Methodological Approach

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21 August 1974
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The Intelligence Report entitled "The Panama Canal Negotiations" was based almost entirely on the accumulated background knowledge of two Panama analysts, drawing from a large volume of State Department, DDO, and DOD reporting, and published material including OCI special reports and National Intelligence Estimates.

Three State Department airgrams were helpful in providing some of this background:

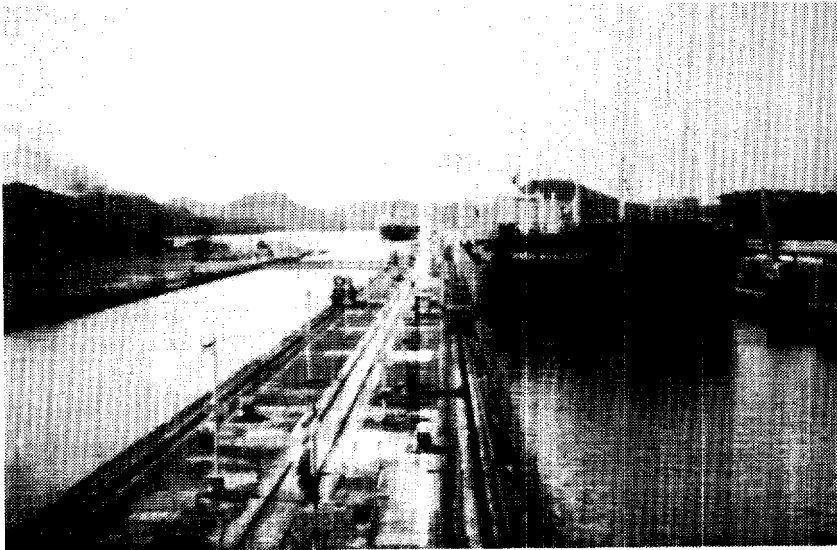
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Emb Panama A-227, 9 Nov 73, Conf

THE PANAMA CANAL NEGOTIATIONS

A Methodological Approach

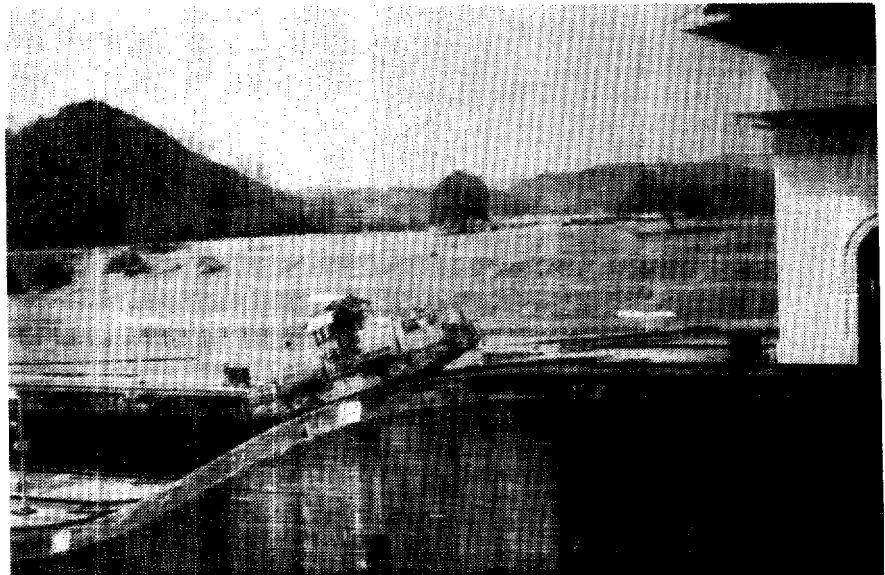
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An oil tanker passing through the locks

Electric "mule" at Miraflores Locks



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Secretary Kissinger and Torrijos



Foreign Minister Tack

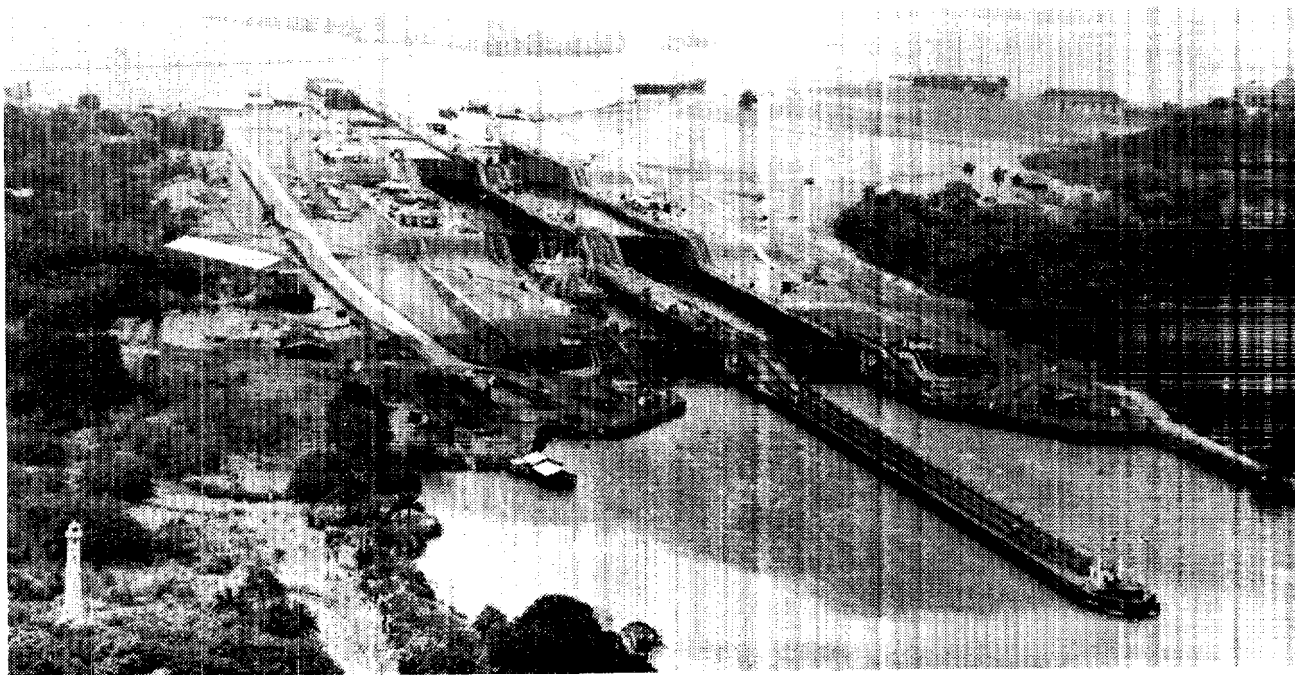
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Introduction

For the past ten years, the US and Panama have been engaged in negotiations toward a new Panama Canal treaty. At times the differences between the two sides have made it seem doubtful that a satisfactory pact could ever be achieved, while at other times it looked as if most of the roadblocks had been cleared away. In late 1973, a new round of discussions began, and the two governments agreed to eight basic principles to guide negotiators' efforts to produce a treaty.

This paper has two objectives. From a substantive intelligence point of view, it explores in some detail the Panamanian negotiating position—the constraints, objectives, and priorities of the Torrijos government on the canal issue. From a methodological perspective, it presents an analytical technique—multi-attribute utility analysis—which permits a quantitative approach to the analysis of negotiations.

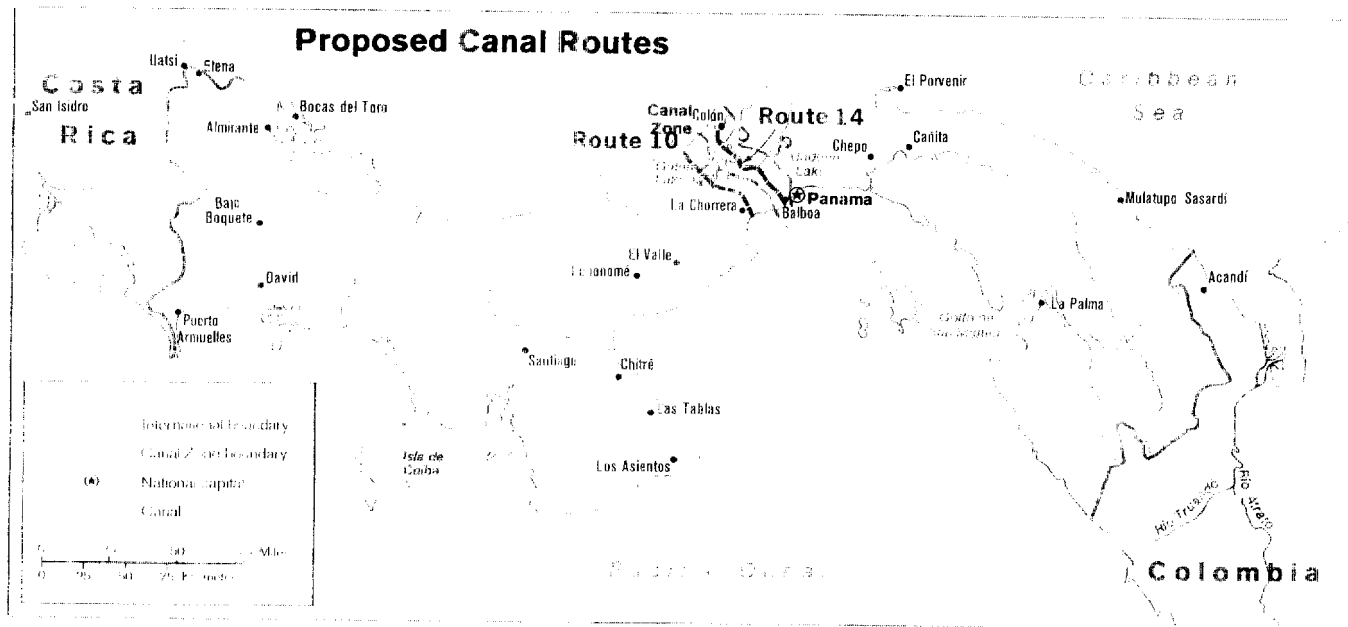
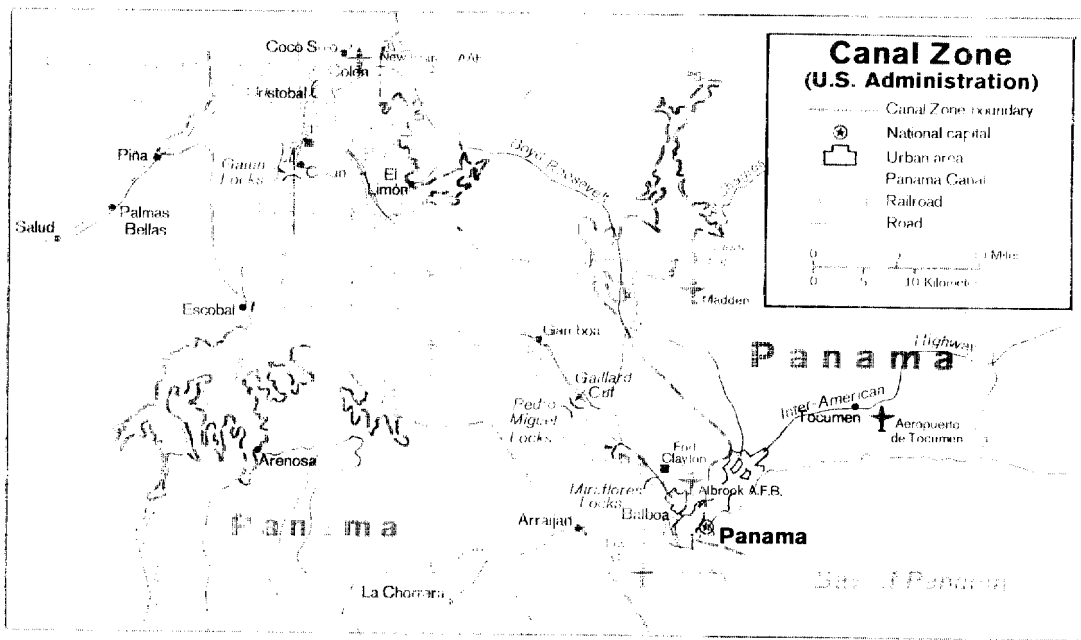
It must be stressed that this utility analysis is not designed to be predictive. We do not suggest that a negotiator can read a chart or a graph and then come up with a negotiating position or "the solution." Instead, we present a way of making explicit our subjective

judgments about the utility to one side or the other of various proposals along the bargaining range and provide some benchmarks that may be helpful in evaluating chances of an agreement.

This analysis is not meant to be read passively. Intelligence or policy analysts can examine the explicit judgments put forth, focus on the assumptions, see where they disagree, and plug in their own judgments. The interaction is dynamic. Given a policy-maker's specification of bargaining ranges and relative importance of issues, it is possible for the intelligence analyst to generate quickly the most efficient (highest utility) agreement within the given parameters and then, from an intelligence point of view, comment on its probable acceptability to Panama.

Since utility analysis requires that issues be evaluated one against the other, and that the value judgments of one side be compared with those of the other, we have presented a US position along with our evaluation of Panamanian thinking. While every effort was made to represent the US position accurately, our characterization is in no way to be considered official.

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Discussion of Method and Reason for Use

In its simplest form, if both sides want to come to an agreement, negotiation is a matter of narrowing differences. In single-issue negotiations, particularly when the parties are of roughly comparable bargaining strength, a compromise or "split the difference" strategy often prevails. X asks for 30, Y suggests 10, and they compromise at 20. The 10 and the 30 are the initial values that each side places on the issue and, as both move an equal distance from their starting point, they both feel they are paying an equal price and getting equal value.

The problem is more complicated in multi-issue bargaining. Splitting the difference on ten issues, even if both sides use honest starting points, is not an equitable, or even a smart way of approaching the problem. Obviously, if one side gives in half-way on seven issues that are important to it and on three issues that are important to the other side, the bargaining symmetry may be lost, one side may feel frustrated, and an agreement might not be signed. Nevertheless, the single-issue strategy and mentality often persists and multi-issue negotiations tend to proceed as a series of single-issue bargaining sessions.

In the past the disjointed style of Panamanian negotiations led to analysis of the canal problem that focused almost exclusively on individual points with little effort to link issues. This paradox can be explained rather simply. From a strategic point of view, the abrogation of the 1903 treaty and the development of a new canal arrangement are the most important foreign policy goals of any Panamanian government. But tactically there is always dissonance between the Panamanian diplomat's sense of what is possible to achieve and the Panamanian politician's sense of what Panama's nationalists will accept. As the Panamanians gain confidence in their negotiating ability and attempt to deal more realistically with the canal problem, such an approach may not fully serve the purpose.

The methodology used here, utility analysis, assists the analyst to interrelate issues and to consider the implication of tradeoffs across treaty issues in terms of the net benefit accruing to each party. The first step in this analysis was to identify the most important issues in the negotiations, to define them precisely, and to translate

them into quantitative terms. The ten most salient issues were isolated and the specific bargaining range for each, based upon previous negotiating efforts, was postulated.

The utility for the US and for Panama of an agreement along a range of possible positions was then indicated on a graph for each issue. On the horizontal axis the quantified issue was plotted: dollars of compensation, years of duration of the treaty, etc. On the vertical axis was measured the utility or relative degree of attractiveness ranging from zero to 100 utils, or units of utility.

The next step was to provide weights, or quantitative measures of the relative importance of the issues in order to focus on the negotiating package as a whole. After the curves had been plotted and the weights added, it was a simple matter to generate a number of treaty outcomes and the associated utility of each agreement for each side. Minimum requirements or even maximum objectives can be specified and the solutions will fall within these parameters but, unlike the issue-by-issue negotiating strategy, a suboptimal resolution will be avoided.

The procedure described here can serve as an instrument used "behind-the-scenes" to facilitate negotiations between the parties. It can be used unilaterally by one of the parties after a negotiating session to update assumptions about the other side and to reformulate its negotiating position so as to maintain for itself an equivalent utility while increasing utility for the other side. Here the approach is used as an intelligence tool to codify our understanding of the Panamanian position and to explore the implications of alternative treaty options.

The Issues

On February 7, 1974, Secretary Kissinger and Foreign Minister Tack of Panama signed a declaration that represented an important step toward a new treaty covering the Panama Canal. The statement provided a framework of eight principles to guide negotiators from the two countries in drafting a new pact. These principles were carefully drawn to meet major Panamanian objections about the present treaty, to soothe Panamanian feelings, and to signal a US sensitivity to Panamanian concerns. As a result, the negotiations have settled

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DECLARATION OF PRINCIPLES

Signed by Secretary Kissinger and Foreign Minister Tack on February 7, 1974.

1. The Treaty of 1903 and its amendments will be abrogated by the conclusion of an entirely new interoceanic canal treaty.
2. The concept of perpetuity will be eliminated. The new treaty concerning the locks canal shall have a fixed termination date.
3. Termination of US jurisdiction over Panamanian territory shall take place promptly in accordance with terms specified in the treaty.
4. The Panamanian territory in which the canal is situated shall be returned to the jurisdiction of the Republic of Panama. The Republic of Panama, in its capacity as territorial sovereign, shall grant to the United States of America, for the duration of the new interoceanic canal treaty and in accordance with what that treaty states, the right to use the lands, water, and airspace that may be considered necessary for the operation, maintenance, protection, and defense of the canal and the transit of ships.
5. The Republic of Panama shall have a just and equitable share of the benefits derived from the operation of the canal in its territory. It is recognized that the geographic position of its territory constitutes the principal resource of the Republic of Panama.
6. The Republic of Panama shall participate in the administration of the canal in accordance with the procedure to be agreed upon in the treaty. The treaty shall also provide that Panama will assume total responsibility for the operation of the canal upon the termination of the treaty. The Republic of Panama shall grant to the United States of America the rights necessary to regulate the transit of ships through the canal and operate, maintain, protect and defend the canal, and to undertake any other specific activity related to those ends as may be agreed upon in the treaty.
7. The Republic of Panama shall participate with the United States of America in the protection and defense of the canal in accordance with what is agreed upon in the new treaty.
8. The United States of America and the Republic of Panama, recognizing the important services rendered by the interoceanic Panama Canal to international maritime traffic, and bearing in mind the possibility that the present canal could become inadequate for said traffic, shall agree bilaterally on revisions for new projects that will enlarge canal capacity. Such provisions will be incorporated in the new treaty in accord with the concepts established in Principle 2.

into a calmer and more businesslike pattern than had prevailed in the past. Nevertheless, the eight principles to a degree mask rather than clarify the underlying issues and sub-issues that will have to be resolved before a new treaty can be signed. At this juncture, there appear to be ten major treaty issues implicit in these eight principles.

1. **Compensation**—The amount of money the US will pay directly to Panama under a new treaty for the right to maintain, operate, and defend the present canal and any new canal.

2. **Duration**—The length of time before a new treaty would expire and all rights would revert to Panama.

3. **Expansion Right**—The number of years the US will have in which to decide whether to expand the present canal by adding a third set of locks or a new sea-level canal.

4. **Expansion Routes**—The location or locations the US could choose from if it decides to expand canal capacity.

5. **Jurisdiction, Temporary**—The number of years' transition before the US gives up certain

jurisdictional rights in the Canal Zone.

6. **Jurisdiction, Permanent**—The number of jurisdictional elements that will be retained by the US for the duration of a new treaty.

7. **Land and Water**—The percentage of the present Canal Zone to be turned over to Panama when a new treaty is ratified.

8. **Defense, Role of Panama**—The degree to which Panama will be afforded canal defense responsibilities under a new treaty.

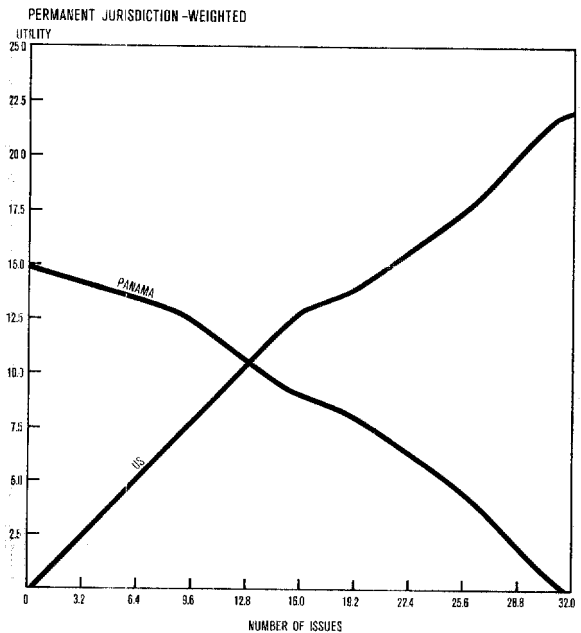
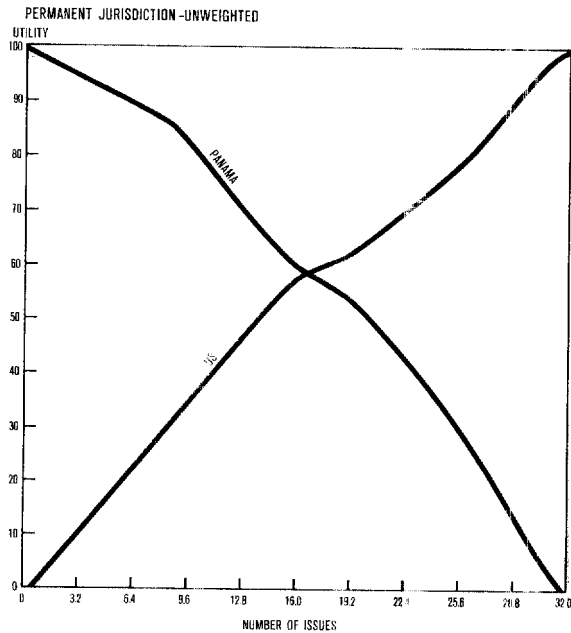
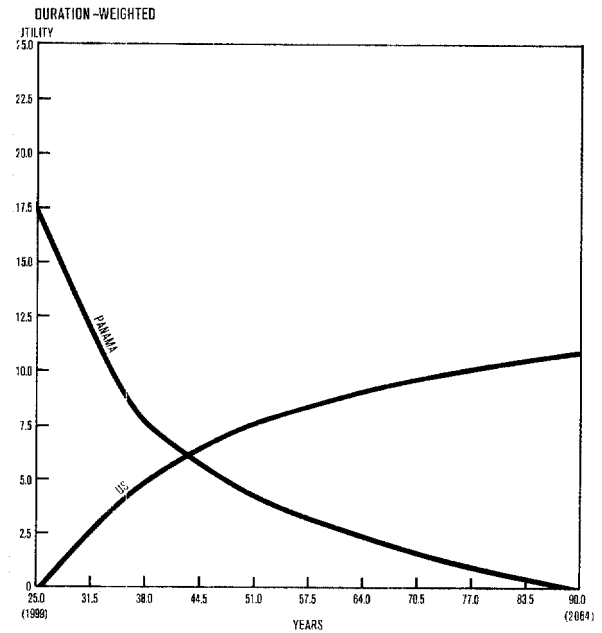
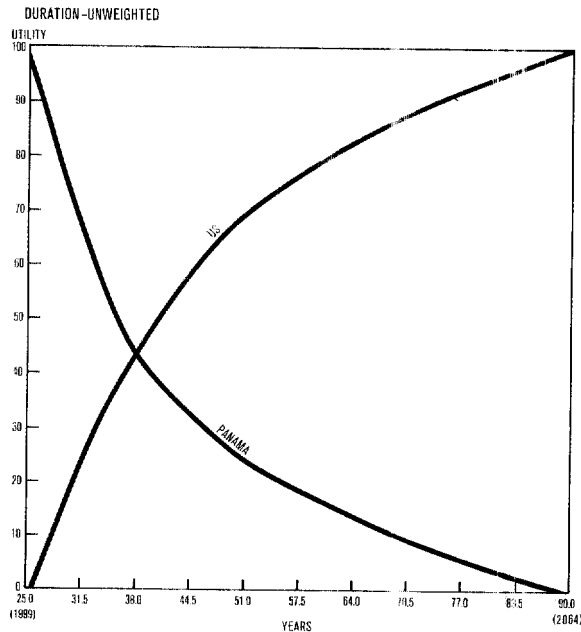
9. **Defense, US Defense Rights**—The degree to which the US will be permitted to retain current facilities, installations, and powers to defend the present or a new canal from attack or sabotage.

10. **Defense, US Military Rights**—The degree to which the US will retain rights that are not directly and immediately related to local defense of the canal.

Utility analysis requires that issues be evaluated one against the other, and that the value judgments of one side be compared with those of the other. Therefore, on the basis of what is now known, we have attempted to capture the relative importance of the various issues to each side.

ASSUMED RELATIVE IMPORTANCE OF TREATY ISSUES

PANAMA			US		
Rank Order	Weight (=100)	Issue	Rank Order	Weight (=100)	Issue
1	15	Duration	1	22	US Defense Rights
2	15	Permanent Jurisdiction	2	22	Permanent Jurisdiction
3	15	Land and Water	3	15	Land and Water
4	13	Panama Defense Role	4	14	Expansion Right
5	11	Compensation	5	11	Duration
6	9	US Defense Rights	6	6	Expansion Routes
7	7	US Military Rights	7	4	Compensation
8	7	Temporary Jurisdiction	8	2	Temporary Jurisdiction
9	5	Expansion Routes	9	2	US Military Rights
10	3	Expansion Right	10	2	Panama Defense Role



Panama has long regarded its strategic location and the canal as its number-one natural resource. As other developing nations have exerted greater control of their economic resources, Panama has felt a need to do likewise. But economics have never played the major role. Panamanians have consistently regarded the 1903 treaty and the US presence in the Canal Zone as an infringement on their sovereignty, casting them in the eyes of the world as a US puppet rather than an independent state. The nationalistic forces on the march in much of Latin America have reinforced Panama's determination to win a new and more favorable deal from the US.

Thus, on the Panamanian side, the issues can be divided into two basic groups: one set with a predominantly psychological base, and another with a largely practical one. The three top-ranked issues—permanent jurisdiction, land and water, and total duration—are in the first category. In all authoritative statements on the canal dispute, these three invariably receive the most attention in Panama.

Duration is of course a key issue because the perpetuity clause was probably the most objectionable feature of the 1903 treaty. The Panamanians tend to link jurisdiction with land and water at the top of their list. One Panamanian official has maintained that "until Panama has recovered full jurisdiction, it cannot be said that it has regained effective sovereignty."

Graft and corruption have always been a way of life in Panama, but politicians are particularly sensitive to the charge that they would barter the national patrimony for money. Thus, a largely symbolic issue, Panama's defense role, may be potentially more difficult than an issue such as compensation.

The Utility Curves

The analysis of each of the issues was condensed into a utility curve that defines the value to each side of various points along the bargaining range. The weighted and unweighted curves have the same shape but the importance of the issue is factored into the weighted curve and, therefore, the vertical axis of the former does not go from 0-100 utils. For example, if duration is considered worth 15 of 100 points to the Panamanians and 11 of 100 points to the US, at its

highest point the weighted Panamanian curve reaches 15 rather than 100, the US curve only 11.

Duration

One of the primary Panamanian targets in the 1903 treaty has been the provision granting the US rights to operate the canal in perpetuity. Psychologically, and therefore politically, it is very important to Panama to gain the abrogation of this provision. Thus, the Torrijos government has steadfastly contended that any new treaty must contain a fixed termination date after which Panama will have full control of the present canal and of any new canal that is built.

The abortive 1967 draft treaties provided that Panama would gain control of the present canal around the year 2000 and would gain control of a proposed sea-level canal within 60 years after its opening or, at the latest, within 100 years after the treaty was signed. The year 2000, therefore, represents a psychological barrier and Torrijos might find it difficult to agree to a treaty whose duration far exceeded this date.

The US is primarily concerned with having control over the operation and defense of a canal well into the next century. It has sought a basic 50-year treaty covering the present canal, with the right to extend it an additional 35 years if the canal is expanded, or 40 years if a sea-level canal is built. Thus, a new treaty could be in force for up to 90 years. The US feels this period is necessary to allow time to plan and to build an expanded or new canal and to recover some of the costs. To Panamanian eyes, however, a 90-year span looks like perpetuity, particularly because the present treaty, drawn up at Panama's inception as a nation, has been in effect only 71 years.

Permanent Jurisdiction

Panama's paramount goal is a "Panamanian canal, operated by Panamanians, for Panamanians." Panama wants explicit recognition of its sovereignty over the Zone and its right to exercise effective territorial jurisdiction. The US now has in perpetuity all of the rights as if it were sovereign in the Zone, and would require in any new treaty sufficient rights and immunities to ensure that its ultimate authority to operate and defend the

CONFIDENTIAL*No Foreign Dissem***THE 32 BASIC JURISDICTIONAL ISSUES**

Order of Ascending Desirability to Panama	Weight		Issue	Order of Ascending Desirability to Panama	Weight		Issue
	US	Pan			US	Pan	
1	100	30	Control of navigation in canal waters	18	30	30	Right to operate Trans-Isthmian Railroad
2	100	30	Control of tolls	19	30	30	Right to use English and Spanish as official languages in the new canal area
3	100	30	Control of claims procedures where US government is involved	20	70	70	Control of health and sanitation in the reduced canal area
4	100	30	Right to use security guards with power of arrest after general police power in Zone lapses	21	70	70	Military Postal Service for official US mail
5	100	30	Immunity for official acts of US personnel and inviolability for US installations	22	70	70	Right to terminate canal operation
6	100	30	Effective control of canal operations	23	70	70	Limitations on US responsibility for ecological damages due to canal operations
7	100	30	Unilateral right to defend the canal	24	70	70	Right to continue to provide US government housing for employees
8	100	30	Right to improve the existing canal short of adding third locks	25	70	70	Right of movement of US government personnel and vehicles in the Republic of Panama
9	100	30	Right to hold and dispose of property	26	70	70	Right to fly US flag
10	100	70	Control of personnel and working conditions	27	90	90	Right to continue to use radio frequencies now held
11	100	70	Rights to operate schools and hospitals for US citizens and municipal services (fire-fighting, water and power, garbage collection, street repair, etc.)	28	100	100	Criminal jurisdiction for the duration for certain crimes against the security of the canal
12	100	70	Special exemptions from Panamanian customs and taxation for US agencies and US citizen employees	29	100	100	Right to provide essential services to shipping (bunkering, repair, naval stores, towing, salvage, etc.)
13	100	70	Immunities for US government contractors and their supplies and equipment	30	100	100	Right to provide all essential services and facilities for US government agency operations (as distinguished from services and facilities for employees that should be provided by private enterprise)
14	100	70	Right to augment water supply for lockages	31	100	100	Right to provide commercial-type services and facilities for employees when private enterprise cannot or will not provide such services and facilities
15	100	70	Right to bring US government employees and US military personnel into the canal area	32	30	70	Motor vehicle licenses and registration for official US vehicles
16	100	70	Control of land and water use in the reduced canal area				
17	30	30	Rights to residence in the canal area for individuals employed in or associated with US government activities				

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canal could not be legally circumscribed by Panama. The Panamanians, however, want to dismantle this "government within a government," as they describe the Canal Zone administration, and to assume all normal government functions.

The Torrijos regime, therefore, wants to limit US rights to the narrowest possible list—spelled out in detail—that Panama deems essential to US operation and defense. All rights of a sovereign jurisdictional nature and all other types of rights not specifically granted to the US will be retained by Panama. The canal operation will be as nearly like that of a foreign-owned private business operation in Panama as possible, and its unique aspects and immunities as a US government operation will be held to an absolute minimum.

The US wishes to retain at least 32 basic jurisdictional elements for the duration of a new treaty. Those that appear most significant to the US and least important to Panama are at the top of the list, those most significant to Panama and least important to the US are at the bottom. Issues about which both sides feel strongly are clustered in the middle. Permanent jurisdiction was weighted against the other issues and the 32 sub-issues were weighted against each other. This then permitted a determination as to which issues would be given up first and what utility loss resulted from giving up a certain number of issues.

The distinction between permanent jurisdiction and temporary jurisdiction should be noted. The former refers to rights the US wishes to retain for the life of a new treaty, the latter to rights the US will give up during the treaty. This distinction is important because it sets up two separate sets of negotiating problems. In the one case, the concern is with definition—whether a jurisdictional element is temporary or permanent. In the other case, the concern is merely with the length of the transition period. Nevertheless, it should be clear that just because an issue is included under permanent jurisdiction does not preclude Panamanian participation. Principle Six, for example, says that Panama will participate in the administration of the canal, Principle Seven talks about participation in canal defense. The point is that during the life of a new treaty the US will retain such jurisdictional rights as canal operation and for most of the period will play a primary and dominant role.

One additional sub-issue that as yet has not been fully addressed is the application of these 32 jurisdictional elements in the context of an expanded (third locks or sea-level) canal. The Panamanian position seems to be that the special rights the US may enjoy relative to the present canal will last only for the duration of the agreement covering this canal and will not be extended to cover an expanded canal. The US wants the new treaty concerning the present canal to continue essentially unchanged for the canal augmented by construction of a third lane of locks or a replacement sea-level canal.

Land and Water

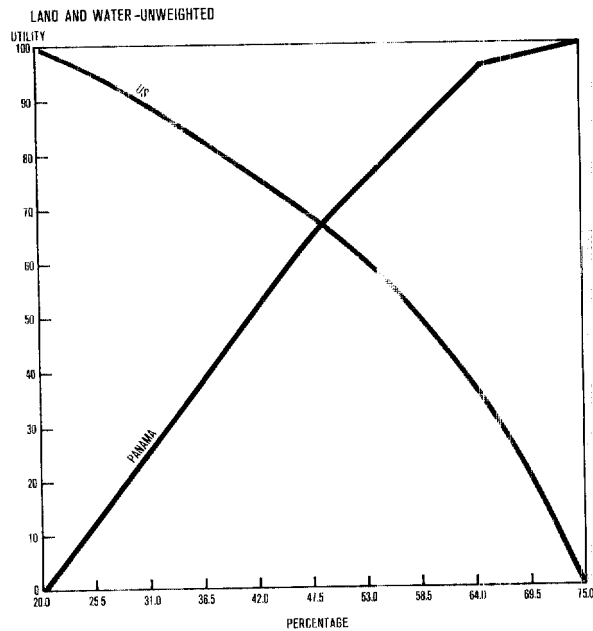
This is a very important issue for both sides, and is likely to be one on which protracted bargaining will be needed.

The Panamanians have insisted that all land and water areas not essential for the operation, maintenance, and defense of the canal must be turned over to Panama immediately after a new treaty comes into effect. They are mainly interested in reducing US-controlled land and water to the smallest possible area. The Torrijos government takes a rather restricted view of the land areas that should be retained by the US—primarily a narrow strip along the canal for operation and maintenance. The Panamanians note that only 15 square miles of the Zone are used for canal operations and only 40 square miles for military installations. The rest of the 372 square miles of land area and 275 square miles of water area, they argue, ought to be available for any Panamanian uses that do not interfere with operation and defense of the canal.

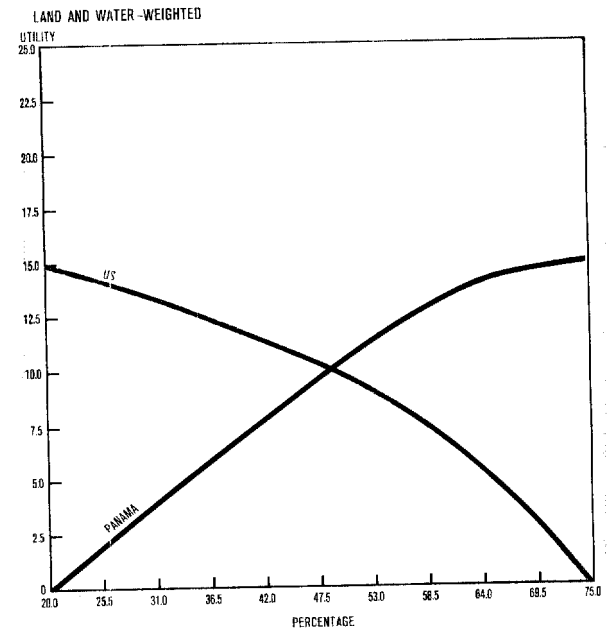
Complicating the issue, however, is the fact that Panama takes a rather broad view of what uses are compatible with canal operations and insists that Panamanian development needs to be given priority. They particularly point to the urgent need for land for urban development. The city of Colon, a Panamanian enclave on the Atlantic side, cannot presently expand at all. Panama City, on the Pacific side, instead of growing in a normal radial pattern, is forced, at considerable cost, to expand roughly along a north-south axis. On the west side of the canal, they claim the town of Arraijan also needs land.

Nevertheless, the basic issue here is national pride rather than land or economic development. Panama

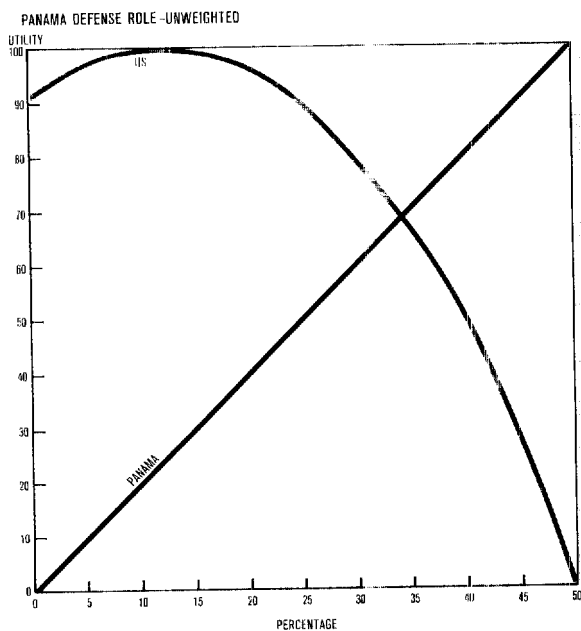
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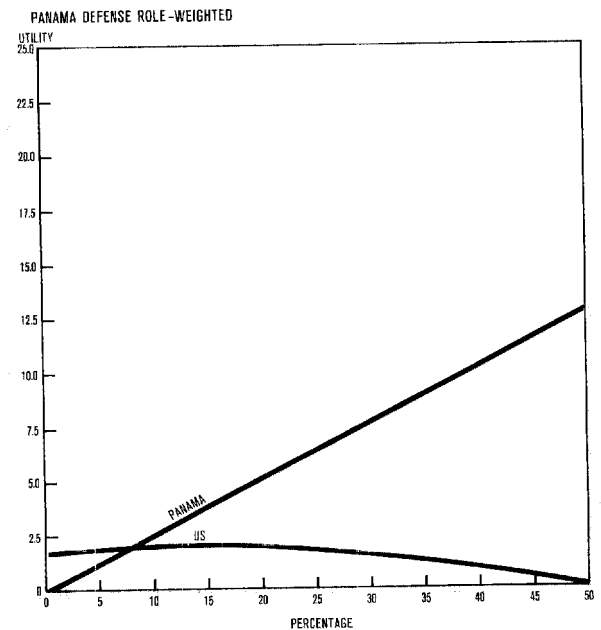
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deeply resents the fact that the country is divided in half and separated by a ten-mile-wide Zone in which the US exercises power as if sovereign. The Panamanians argue that they have always regarded the canal as an important national resource and have never done anything incompatible with its continued operation. Instead of having the US control the land near and adjacent to the canal, with Panama required to ask US permission before it can use this land, it prefers to reverse the situation: to have the US come to Panama for permission to utilize land or to argue against particular Panamanian land use proposals.

In addition to opposing a US-controlled area contiguous to the canal, Panama has argued against retention by the US of the training and maneuver areas within the Zone. Supporting its wish to regain control of the land, it argues that US troop training could be done elsewhere, and that these areas are not necessary for canal defense. These arguments appear to have a substantial pecuniary cast. Panama seems to believe that if the training areas now in the Zone can be disassociated from canal protection and more closely tied to purely US national defense interests, then the US might be forced to pay additional sums of money for the privilege of using such areas. Some Panamanians reportedly feel that if the US were to relocate the training functions elsewhere in Panama, the construction of new installations in the hinterlands would contribute to the development of these areas and the overall economic development of Panama.

Despite these nuances, the major question is the amount of the present Canal Zone that is to be returned to Panama. Panama seems to feel that 75 percent should be returned. The Panamanian curve shows, however, relatively little loss in utility between 75 percent and 65 percent and a sharper but still gradual decrease to 50 percent. Below 50 percent each successive percentage drop is as bad as the previous one and thus a straight line slopes down to 0 utils at 20 percent. This judgment of the Panamanian position does not take into account where the land and waters to be transferred are located; land close to Panama City and Colon, for example, would be much more desirable to Panama than land around Gatun Lake. Thus, getting more advantageous land might convince the Panamanians to accept a smaller actual area.

The US feels that it needs a certain amount of land and water to operate, maintain, and defend the canal. It is unlikely to give up land on which most existing installations are located (Old and New France Fields are an exception), and it wants to retain a contiguous strip of land on both sides of the canal for defense purposes. Water areas may be more important than land, because it is the water of Gatun, Madden, and Miraflores lakes that makes possible the transit of vessels through the locks of the canal. In fact, the potential shortage of water is one of the main factors limiting the capacity of the canal. As the number of transits increases, more—not less—water is going to be needed. The US has considered turning 20 percent of the land and water occupied by the Zone over to Panama; it could go as high as one third without major damage. The US curve indicates a gradual decrease to 50 percent and a sharp decline thereafter.

Panama Defense Role

Ultimate responsibility for the protection of the canal clearly can rest with only one country. The US insists that it must exercise this responsibility until the expiration of a new treaty. The Panamanians claim that since the canal is located on their territory, they must have a role in its defense. They also contend that the main reason for the presence of US military forces in the Canal Zone is to protect the canal from Panamanians, and that since there has never been an attempt to sabotage the canal—which is the country's most valuable resource—this threat is illusory.

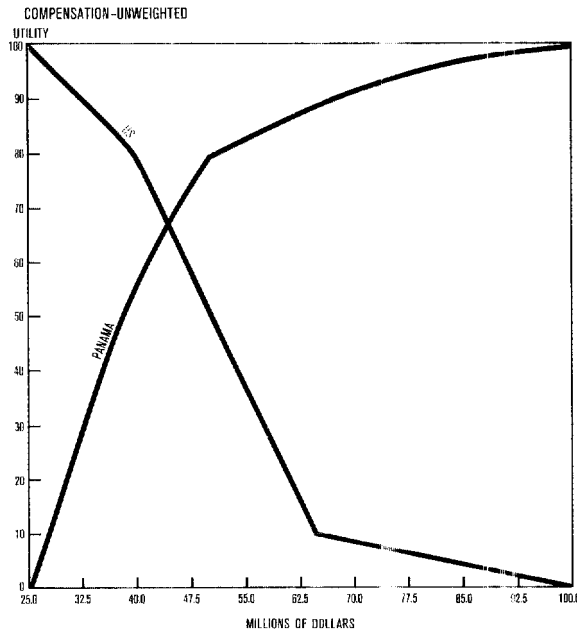
Panama suggests, therefore, that its security forces are competent to help protect the canal. Indeed, one of the Torrijos government's objectives in sending a contingent of the National Guard to serve with the United Nations Peacekeeping Force in the Suez area was to demonstrate the Guard's capability.

Up to this point, the Panamanians have indicated that they would be satisfied with a minority role in terms of men, equipment, etc., in protecting the canal. They are probably most interested in obtaining a role with high visibility, such as joint police patrols. Because they do seem willing to accept a minority role, the bargaining range has been set at from 0 to 50 percent Panamanian participation.

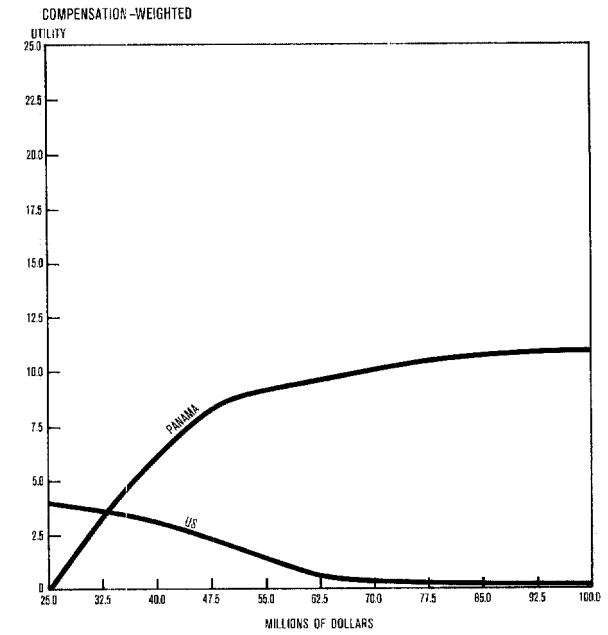
An issue that the negotiations have not yet addressed is defense arrangements for a sea-level canal, should one be built. The security problems would be far less than with the present lock canal, and one Panamanian

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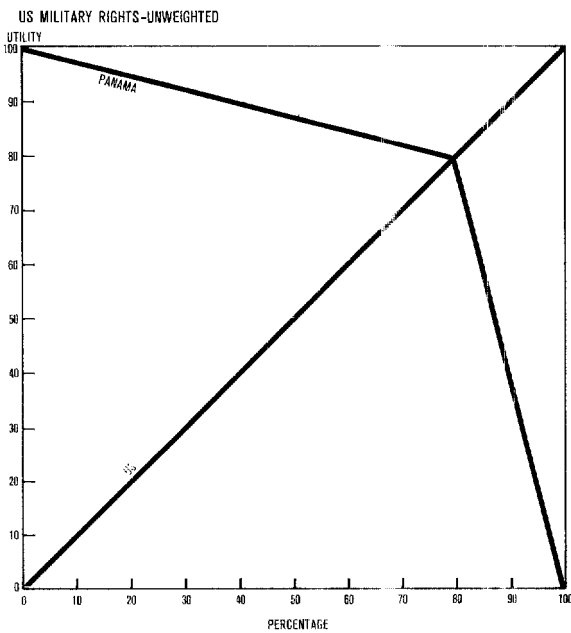
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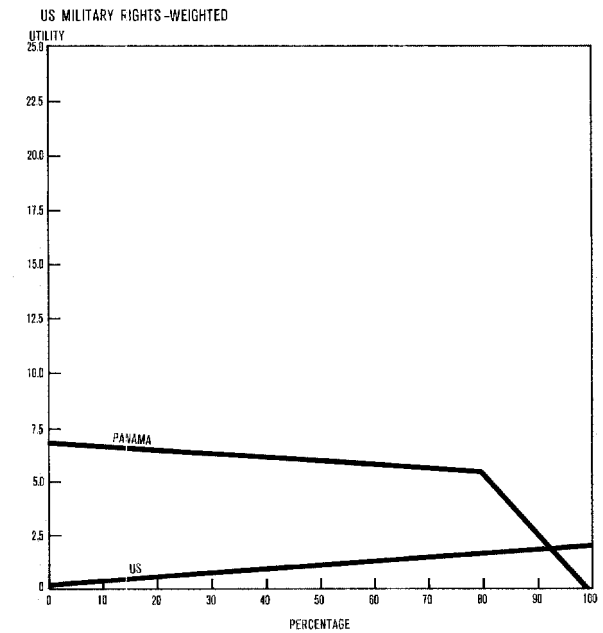
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negotiator (Lopez Guevara) has already stated that Panama would seek exclusive responsibility for its defense.

Compensation

Although the Panamanians are placing heavy emphasis on jurisdictional and sovereignty issues, this is not for lack of interest in increased economic benefits. Rather it is that they are more confident that economic concessions will come easily. They consider the canal their prime natural resource and, looking at what other countries like Venezuela earn from their resources, may have developed some inflated notions of what Panama should gain from the canal. Thus, some very tough bargaining may be in prospect.

The Panamanians maintain that the canal is not being operated as a business but as a non-profit undertaking. They note, for example, that until 1974 tolls had not been increased since the canal opened in 1914. As a result, they estimate that US shipping interests, and indirectly the US consumer, have received a cumulative subsidy of \$1 billion. They also insist that the present \$2.3 million annuity is ridiculous, and that the \$20-25 million Panama would now be receiving had the 1967 draft treaties been accepted also is insufficient.

In previous negotiations, the Panamanians have called for payment by the US of income, automobile license, and other taxes, in addition to the annuity. They are also likely to want payment for any military bases and installations the US retains after a treaty is signed, probably under the terms of a status of forces agreement. They are likely to look at the US agreement with Spain as a model.

Earlier, the Panamanians had hinted at a total US annual payment of \$50-100 million. On this basis, the bargaining range has been set at from \$100 million—Panama's likely maximum demand—to \$25 million, an amount in keeping with the 1967 draft treaties. The Panamanian curve reflects a modest drop in utility as the amount increases from \$25 to \$40 million. US utility is still fairly high at \$50 million but quickly drops to below 10 utils at \$65 million.

US Military Rights

The Panamanians have maintained a strong distinction between, on the one hand, a narrowly defined concept of canal defense and on the other, US military interests such as hemispheric defense. Thus, while recognizing the US right to maintain a limited military

presence in the Zone to defend the canal during the period covered by a treaty, they have argued for the removal of military installations they consider to have a primary mission other than canal protection. In their view, such installations make Panama a possible target in the event of hostilities involving the US and, in any case, are symbols of US "intervention" in Panama and other Latin American countries. The presence of such installations is thought to be an embarrassment to the "progressive" image of the Torrijos government.

The strongest objections generally have been directed at the presence of the headquarters of the US Southern Command (SOUTHCOM). The Panamanians are somewhat ambivalent about other US military activities. At times, they have expressed displeasure about the training of military forces of conservative Latin American regimes at the School of the Americas at Fort Gulick; yet Panamanian National Guard troops also go through programs at this school, and many Panamanians apparently view the school's presence as prestigious. They probably also recognize the service that US disaster assistance teams based in the Zone have played in Latin America.

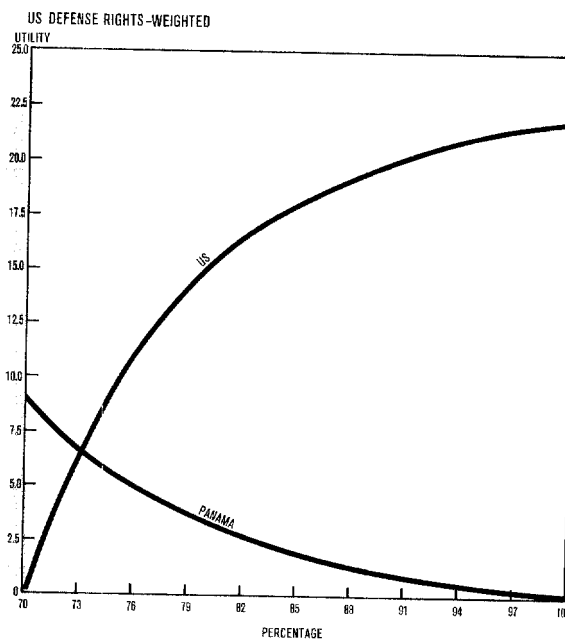
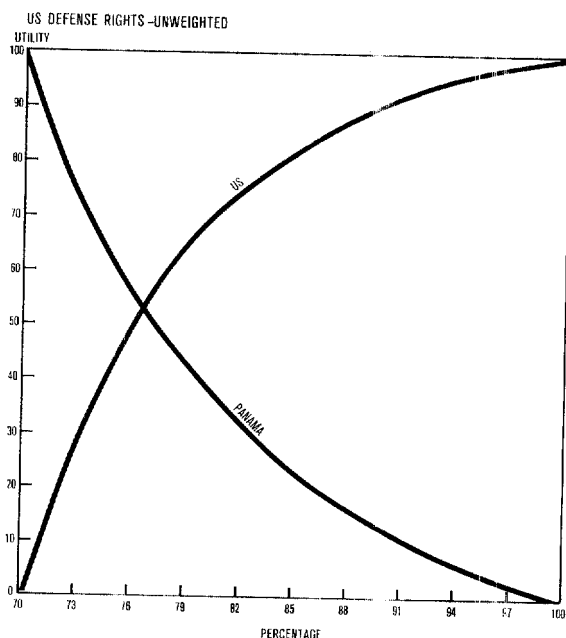
On balance, it appears likely that the Panamanians will remain adamant that the headquarters of SOUTHCOM must go. They might be less insistent about other military-related activities such as the School of the Americas, the Tropic Test Center, and Tropic Survival School, the Inter-American Air Force Academy, and the Inter-American Geodetic Survey. In the bargaining process, they might be willing to barter retention of these facilities for additional payment or for US concessions on other issues.

US Defense Rights

The US presently has in the Zone a large number of personnel and several military installations, which carry out a broad range of activities generally related to the defense of the canal. Army, air force, and naval bases house approximately 10,500 troops and provide access points through which reinforcements could be brought to defend against a threat to the canal. Communications installations link the forces in the Zone with the US military worldwide, and guide air force planes and navy ships in the area. US military air traffic control systems service the civilian Tocumen airport in Panama, as well as the US bases in the Zone. There are several ammunition and fuel transportation facilities, as well as installations for maintenance and

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repair of most types of military equipment. All three services use large areas in the Zone for training and weapons practice.

The US claims that this extensive military presence is authorized by the right to protect the canal granted in the 1903 treaty. Article XXIII of this pact stipulates that:

If it should become necessary at any time to employ armed forces for the safety or protection of the canal, or of the ships that make use of the same, or the railroads and auxiliary works, the United States shall have the right, at all times and in its discretion, to use its police and its land and naval forces or to establish fortifications for these purposes.

As an additional protective measure for the canal, the 1903 treaty gave the US the right to intervene to preserve order in the cities of Panama and Colon should US authorities judge that the Panamanian government was unable to do so. This provision was abrogated by the 1936 treaty. Article X of this pact also provided for consultation by both governments in matters related to canal defense:

In case of an international conflagration or the existence of any threat of aggression which would endanger the security of the Republic of Panama or the neutrality or security of the Panama Canal, the Governments of the United States of America and the Republic of Panama will take such measures of prevention and defense as they may consider necessary for the protection of their common interests. Any measures, in safeguarding such interests, which it shall appear essential to one Government to take, and which may affect the territory under the jurisdiction of the other Government, will be the subject of consultation between the two Governments.

In addition to the installations in the Canal Zone, there is also a need to protect some 38,000 US citizens living there. A special problem could be posed by approximately 5,000 US citizens residing in Panama City who could be affected by a crisis involving the Zone. The possible need to send US forces into Panamanian territory to protect these Americans must be taken into account in US defense planning, although it may not be specifically included in the wording of a new treaty.

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On their side, the Panamanians generally recognize that the US has a right to take steps to protect the canal during the period when a treaty is in force. They insist, however, that there is a clear difference between protection of the canal in time of peace and defense of the canal during wartime. The latter, they claim, is an international question beyond the scope of a bilateral treaty because such defense would take place far from Panamanian shores and would not involve or require US forces stationed in Panama. On the other hand, they agree that rights related to protection against sabotage, for example, should be addressed in a treaty. The Panamanians have often claimed that the US military presence in the Zone (which exceeds the total Panamanian military manpower by 40 percent) is much larger than is needed to protect the canal.

The Panamanians of course realize that Defense Rights is a key issue for the US, and they will probably show significant flexibility on this issue. Indeed, as the bargaining range indicates, what is at issue is a relatively small portion of the rights that the US now enjoys. The Panamanians have not indicated which facilities they want closed down and which they would be willing to let remain. Panama is almost certain to demand some reduction in the number of personnel and bases, and to refuse to agree to the installation or storage of nuclear or chemical and biological weapons systems. In sum, it will want the US defense role to be carefully defined in a status-of-forces agreement, either in the new treaty or in a separate document. The Panamanian curve indicates that the Torrijos government will be fairly insistent on some restriction of current US rights—probably at least a 20-25 percent reduction in the total authority that the US enjoys under the 1903 treaty.

The Panamanian arguments from a military point of view are questionable. Defense of the canal just against sabotage could require more rather than fewer soldiers. In any event, the US has sought full and unilateral rights to defend the canal. Panamanian participation in this defense is welcomed, but such participation would not in any way dilute or reduce US defense rights or interfere with US political and military decision-making authority or responsibility. Within bounds, Panamanian objections can be accommodated and the US curve indicates a relatively limited loss in utility from a modest 10 or even 20 percent diminution in defense rights.

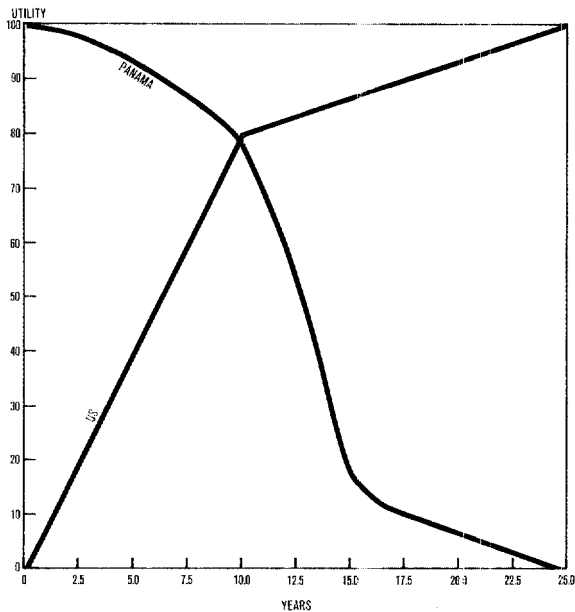
Temporary Jurisdiction

This issue must be read in conjunction with permanent jurisdiction, for those jurisdictional elements that the US wishes to retain for the life of a new treaty are treated under "permanent jurisdiction" while those that the US is willing to give up before the termination of a new agreement have been labeled elements of temporary jurisdiction. At present, 18 items fall into this latter category.

ELEMENTS OF TEMPORARY JURISDICTION

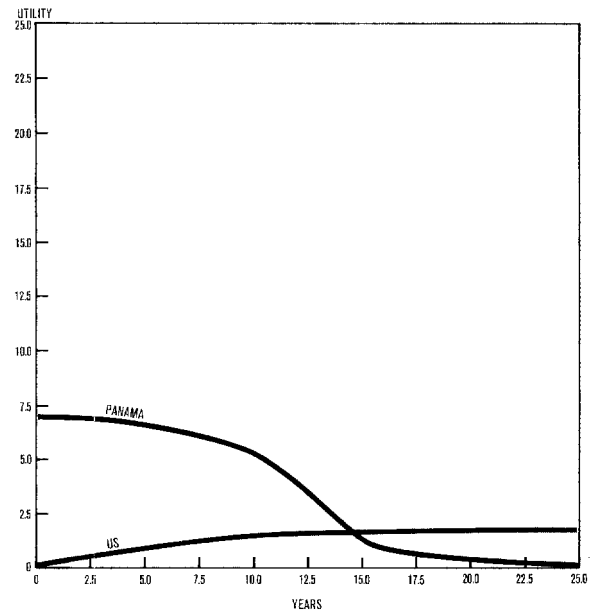
1. Use of Panamanian license plates on all private vehicles in Canal Zone.
2. Use of Panamanian postal system.
3. More use of Spanish language and more instruction in Panamanian history in Canal Zone schools.
4. Increased employment opportunities for Panamanians in Canal Zone to point where they will hold 85 percent of all positions.
5. More use of joint US-Panamanian commissions to deal with issues such as urban problems created by Canal Zone presence.
6. Panama to take over Canal Zone bus service.
7. Canal Zone governor to withhold Panamanian income tax from people working in Canal Zone who are subject to Panamanian taxation.
8. Fly Panamanian flags throughout Canal Zone and on commercial vessels transiting canal (might let US flags fly too).
9. Permit some Panamanian commercial enterprises to operate in Canal Zone.
10. Authorize exclusion of Canal Zone minimum wage coverage and Occupational Safety and Health Act with respect to non-US citizens.
11. Sale of Panamanian lottery tickets in Canal Zone.
12. Transfer to Panama properties formerly occupied by US consulate in Colon City.
13. Give jurisdiction to Panamanian courts in some cases involving Panamanian citizens.
14. Panama to take gradual control of hospitals, fire departments.
15. Panamanian official and worker representation in handling labor matters in Canal Zone.
16. Apply Panamanian immigration laws to all employees of Canal Zone.
17. Make social, religious, and charitable organizations operating in Canal Zone subject to Panamanian laws and regulations.
18. Police authority in canal area to be transferred to Panama.

TEMPORARY JURISDICTION - UNWEIGHTED



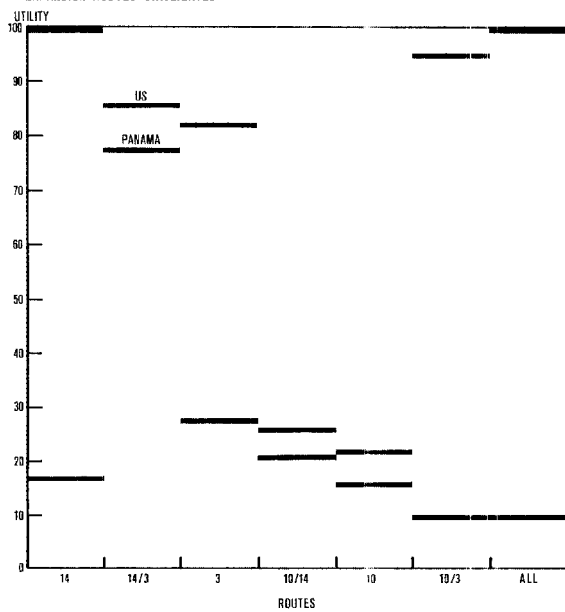
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TEMPORARY JURISDICTION - WEIGHTED



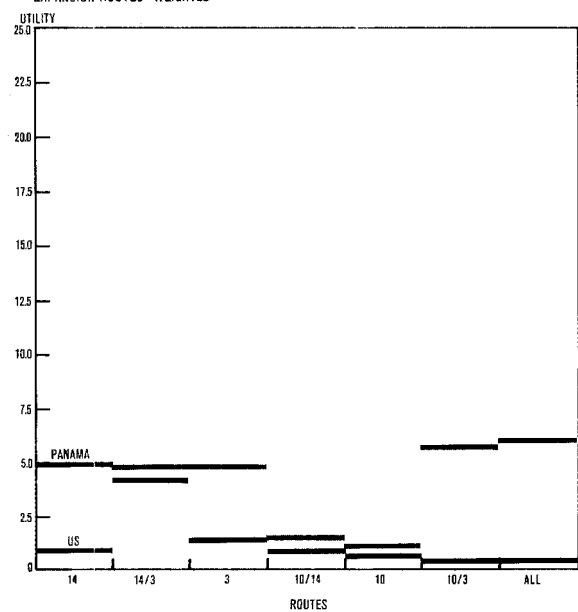
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EXPANSION ROUTES - UNWEIGHTED



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EXPANSION ROUTES - WEIGHTED



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Panama would obtain some of these jurisdictional elements as soon as the new treaty entered into force, while others would be transferred during a transition period intended mainly to minimize disruption to the lives of US residents of the Canal Zone who would be affected. The key negotiating problem here is to define the maximum permissible phase-out period. In previous negotiating rounds, the US has maintained that a 25-year transition period was essential for some aspects of jurisdiction, while the Panamanians have insisted on completion within five years. Many of these elements touch heavily on Panama's desire to establish effective sovereignty within the Zone. Several have great symbolic significance and would have great popular appeal that would benefit the Torrijos government. Delaying Panamanian jurisdiction would vastly dilute the domestic political impact and diminish Torrijos' "triumph."

Panamanian utility, therefore, is highest with an immediate transfer of these items, diminishing moderately through a ten-year transition period. Utility plummets between 10 and 15 years, indicating relatively little Panamanian flexibility on this issue at this time. The US curve in contrast shows a modest decline in utility from 25 to 15 years and more sharply for each additional decrease.

Expansion Routes

The only new right that the US could obtain from a new treaty is an option to expand canal capacity. The Panamanians believe that by the end of the century the present canal may prove inadequate to carry the volume of traffic that will want to use it. The Panamanians also believe that the US will pay heavily for the expansion right.

Expansion could be done by building a third set of locks to provide another lane for traffic through the present canal, or by constructing a conventionally excavated sea-level canal. A sea-level canal would be twice as expensive as a third set of locks, but would also be far less vulnerable to sabotage. Two routes are under serious consideration: Route 10, approximately ten miles west of the present canal, linking the towns of Caimito on the Pacific Coast and Palmas Bellas on the Atlantic Coast; and Route 14, roughly following the course of the present canal.

For Panama, each of the three expansion alternatives has some advantages and some disadvantages.

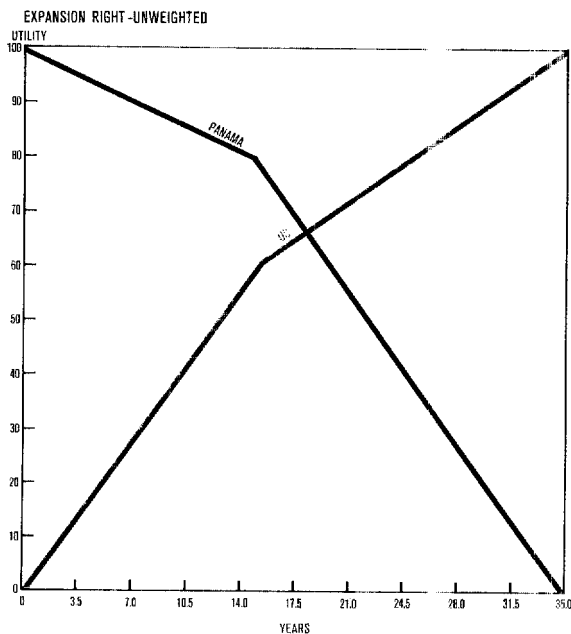
Constructing a sea-level canal on Route 10 is the least preferred because it would divide the country a second time and create a second canal zone. The area around the new canal, moreover, might evolve into a new center of commercial activity rivaling Panama City, with attendant political and economic dislocation. There would be an economic boom during construction of the canal but a possible slump afterward. There would be two canals rather than one, with Panama getting the old, obsolete canal while the US retained control of the new canal. Panama would be saddled with the high cost of maintaining and operating the old canal at a time when traffic was shifting to the new sea-level canal. On the positive side, there would be no disruption of canal traffic during construction of the new canal and there would be no destruction of existing facilities.

The third-locks plan is the second best expansion alternative from the Panamanian viewpoint. It would provide high employment during the construction phase, though the dollar cost of the canal would be less than that of a sea-level canal. The present canal would not be closed during construction of the additional locks and traffic would not be disrupted. The expanded canal would employ a substantial number of operating personnel, and in general there would be the least amount of economic or physical dislocations. On the minus side, Panama would not acquire a truly modern canal and the defense implications of an expanded-lock canal would require a greater US military presence than a sea-level canal.

A sea-level canal built along Route 14 appears to have the highest utility to Panama. Instead of two canals and two canal zones, there would be, at the end of the construction period, a single modern, efficient canal able to handle projected traffic for the foreseeable future. Even this alternative, however, is not without disadvantages. Land needed by Panama would be tied up, the present canal would have to be closed for two years during construction, the current canal would be destroyed, and the new canal would provide far fewer jobs.

On the US side, greatest utility derives from an agreement that leaves open the choice of alternatives. Of the three possibilities, the US prefers the third-locks plan because it is cheapest and most likely to win congressional approval. Route 10 is preferred over Route 14

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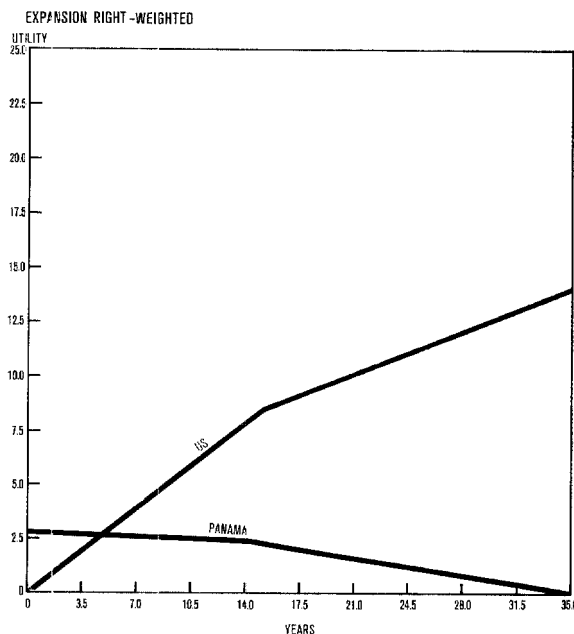
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because, located away from Panama City, it would cause fewer administrative and defense problems. Either the Route 14 or Route 10 option, when coupled with the third-locks alternative, has high utility to the US; Routes 10 and 14 without the third-locks alternative have fairly low utility.

Expansion Right

Both Panama and the US agree that at some point traffic through the present canal will reach a saturation point. Neither side is certain, however, when this will happen. Some studies have suggested that it will not be until the end of this century; recently, the Canal Zone governor said that certain technical improvements in the present canal could delay its obsolescence until well into the 21st century. Because of this uncertainty and the tremendous potential cost—possibly \$4 billion to build a sea-level canal, and somewhat less to expand the present lock canal—the US has been seeking an extended period to make a determination about whether, and how, to augment the canal's capacity.

The Panamanians, for their part, do not want to hold open a right-of-way for a sea-level canal for an extended



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period nor unnecessarily limit land development plans in areas that might be required for a third set of locks. Moreover, they have been relying on statistics indicating that by the year 2000 the canal's ability to handle traffic will have reached a saturation level, and further that it will take 15 years for the actual expansion work to be completed. Thus they see 1985 as the year of decision and feel that a short option period is all that is required. Panama's position on expansion is also related to its position on duration. Given the 15-year construction time and the unwillingness of the US to give up the present canal before a sea-level canal is in being, Panama must insist that the US begin construction in 10-15 years if it is to see a basic treaty duration of 25-35 years. Thus, the Panamanian curve shows highest utility at zero years—that is, they would most prefer a commitment from the US at the outset. Their lowest utility is at 35 years. The curve shows relatively little utility is lost at 10-15 years, but a sharp decrease after that.

The US has its highest utility at 35 years—it wants a 50-year treaty; its lowest utility is at zero years but the curve is concave, showing that an increase from 5-10

years yields very little additional utility compared with the increase from 10-15, and that the increase in utility from 15-30 is far greater than that from 0-15.

Despite this, in previous negotiations Panama has tentatively proposed to give the US a 15-year option and, for additional consideration, provide two five-year extensions. This did not differ radically from the US request for a flat 25-year option period and appeared merely to be an attempt by Panama to obtain additional benefits at little cost. It could also serve as a bargaining counter to secure additional concessions from the US in other areas.

Treaty Outcomes and Tradeoffs

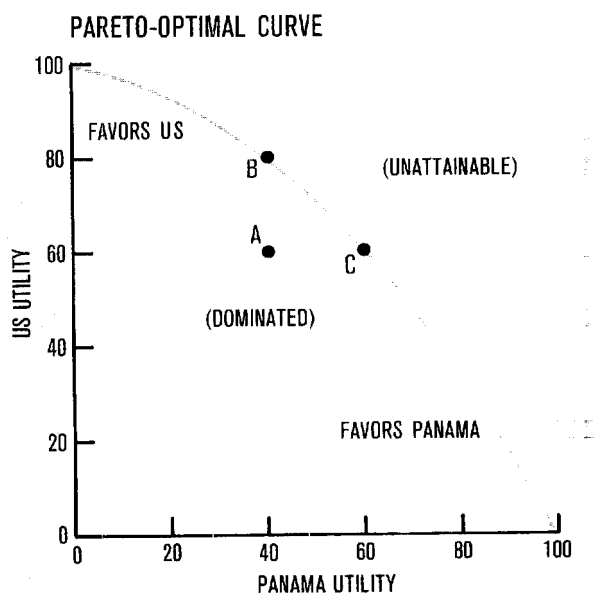
Combining Utility Curves

The preceding discussion summarizes our understanding of the issues, the bargaining ranges, and the priorities. Generally, the analysis would stop there. Using utility analysis, however, it is possible to examine more fully the implications of the various judgments and to use the utility curves to evaluate alternative treaty packages.

A few introductory points are in order. For each side, a completely unsatisfactory agreement has zero utility;

one that is perfectly satisfactory has 100 utils. Thus, if side A were to win on all issues, the resulting agreement would have 100 utils for A and zero for B; the total joint utility would be 100. Similarly, if there were no disagreement between the two, an agreement might be worked out that was completely satisfying and, therefore, worth 100 utils for each; the total joint utility would then be 200.

It is possible to graph any possible treaty package. On the horizontal axis is plotted the total utility of the package to Panama, and on the vertical axis the total utility of the same package to the US. We are interested only in the set of points that maximize utility under varying constraints. A smooth curve drawn through these points defines a set of solutions that are pareto-optimal, i.e., that present a situation where one side cannot improve its position without decreasing the utility to the other side. Any point that falls on the inside of the pareto-optimal curve would be dominated in the sense that it is possible to improve the utility to either side with no resulting decrease in the utility to the other. Consequently, from the point of view of maximizing utility, the consideration of treaty options should be restricted to those falling on the pareto-optimal curve.



Point A, representing an agreement that has 60 utils for the US and 40 for Panama, is said to be dominated because by moving up to the pareto-optimal curve—point B—the US improves its position (80 vs. 60 utils) at no cost to Panama (still 40 utils). By moving to point C, Panama improves its utility (60 vs. 40) at no cost to the US, which is still at 60. Any point on the curve between B and C allows both Panama and the US to improve utility compared with point A.

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T R E A T Y O U T C O M E S

AGREEMENT	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	
US Defense Rights	100	100	100	100	100	100	100	100	100	100	93	87	78	73	70	60	50	Percent
Expansion Option Years	35	35	35	35	35	35	35	27	26	26	29	25	15	15	15	15	10	Years
Expansion Routes	ALL	ALL	ALL	ALL	14/3	14/3	14/3	14/3	14/3	14/3	14/3	14/3	14/3	14/3	14/3	14	14	Routes
Permanent Juris.	32	32	32	32	32	31	31	31	29	17	10	9	9	9	7	10	10	Issues
Land and Water	20	20	20	20	25	42	43	43	43	53	54	60	65	65	65	71	75	Percent
Total Duration	90	90	90	90	90	90	49	27	26	26	29	25	25	25	25	25	25	Years
Temporary Juris.	25	10	10	10	10	10	10	10	5	5	3	3	3	3	2	10	10	Years
US Military Rights	100	98	80	80	80	80	80	80	80	68	68	68	68	68	68	68	68	Percent
Compensation	25	25	40	78	95	95	95	95	95	95	100	100	100	100	100	100	100	Millions
Panama Defense Role	13	19	28	38	45	50	50	50	50	50	50	50	50	50	50	50	50	Percent
Total US Utility	100	100	98	95	92	88	85	76	70	63	55	48	40	32	25	12	1	
Total Panamanian Utility	3	12	25	32	40	48	52	63	70	77	82	87	91	94	96	99	100	
Joint Total Utility	103	112	123	127	132	136	137	139	140	140	137	135	131	126	121	111	101	

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A useful first step is to establish some benchmarks or standards against which various treaty outcomes may be measured. We might start by measuring the utility to each side of a strict compromise—an agreement where both sides agreed to select the mid-point of each issue. Using the utility curves previously generated by the analysis, this would yield a “Mid-Point Agreement.”

This “mid-point solution” can be contrasted with the treaty outcome which, when the US and Panamanian utilities are combined, has the highest possible joint utility, given each country’s valuation of the issues. This solution is called the “Joint Max Agreement.”

It is not suggested that either alternative is viable or politically realistic, but it is clear that one would want to do better than the “mid-point” solution of 119 and could not do better than the “joint max” solution of 140. We find, moreover, that if these solutions are graphed, the former is a dominated solution while the latter is on the pareto-optimal curve.

From an intelligence point of view, it is useful to postulate a wide variety of alternative treaty outcomes—from an agreement totally favoring Panama to one totally favoring the US—which are pareto-optimal. Seventeen such outcomes are shown in the table opposite. The issues are arranged so that those in the top rows are relatively more important to the US than to Panama, and those at the bottom rows are relatively more important to Panama than they are to the US. The outcomes shaded in dark blue are resolved completely in favor of the US; those shaded in dark red are resolved completely in favor of Panama; those in light blue indicate that more than 50 percent of the utility goes to the US; and those shaded in light red indicate that more than 50 percent of the issue goes to Panama.

Model US Agreement

Once policy guidance is given, the implications of agreements within prescribed ranges can be more carefully examined and analyzed. It is not common practice, however, to specify an agreement in terms of utils, to say that the US requires a 60-util treaty or that the Panamanians must have an agreement that is twice as favorable to it as to the US. Instead, it is usual to say that the US cannot accept less than “X” on issue three, “Y” on issue six, etc. As an example, if US policy makers determined that the best that can be offered Panama is the Model US Agreement, under which the US gives up

Mid-Point Agreement

Issue	Outcome
Total Duration	58 years
Compensation	\$ 63 million
Perm. Jurisdiction	16 issues
US Defense Rights	85 percent
Expansion Option	
a. Years	18
b. Routes	10/14
Panama Defense Role	25 percent
Temp. Jurisdiction	13 years
US Military Rights	50 percent
Land and Water	48 percent
US Utility	66
Panamanian Utility	53
Joint Utility	119

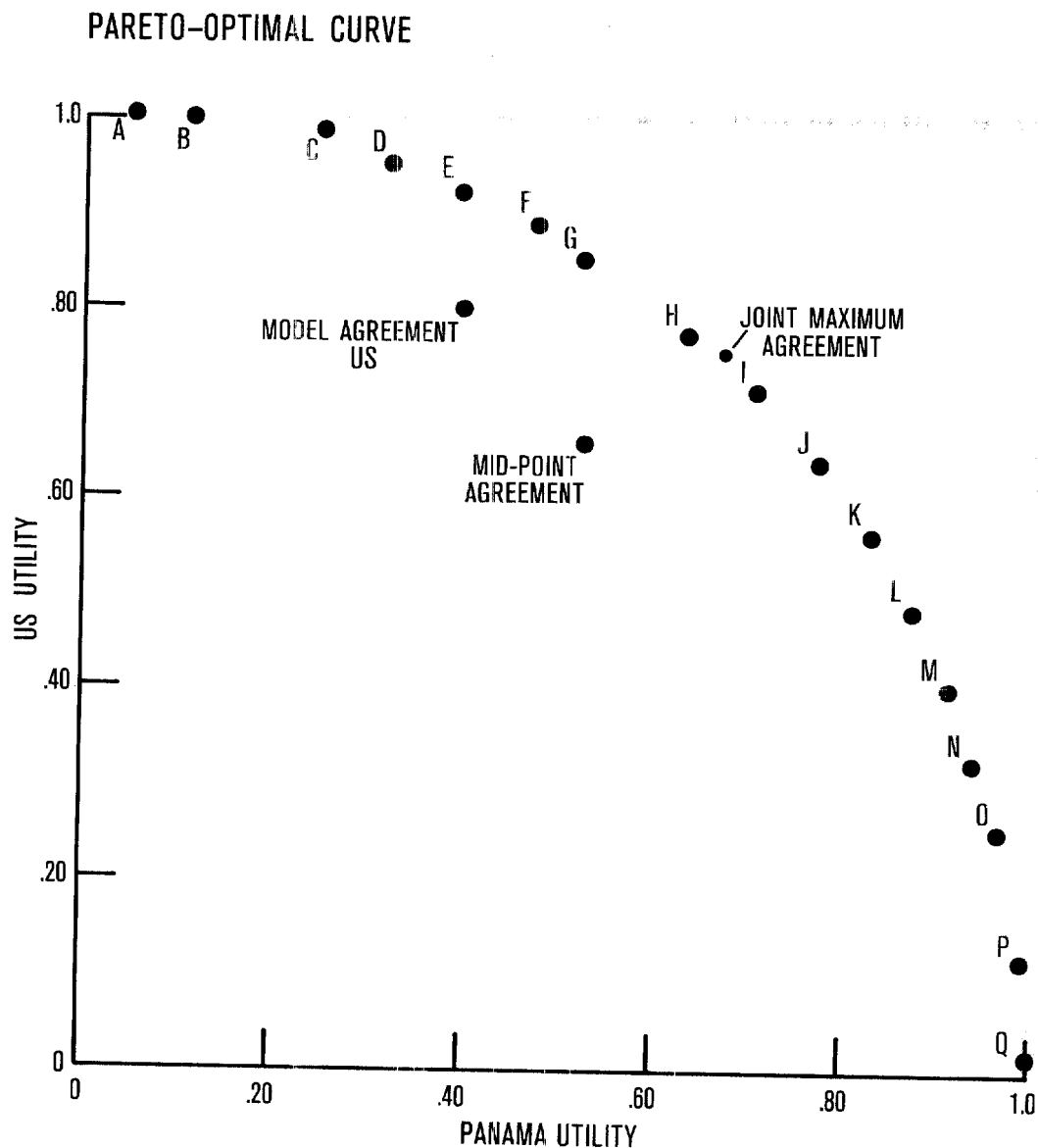
Joint Max Agreement

Issue	Outcome
Total Duration	25 years
Compensation	\$100 million
Perm. Jurisdiction	31 issues
US Defense Rights	100 percent
Expansion Option	
a. Years	25
b. Routes	14/3rd Lock
Panama Defense Role	50 percent
Temp. Jurisdiction	5 years
US Military Rights	80 percent
Land and Water	50 percent
US Utility	72
Panamanian Utility	68
Joint Utility	140

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Issue	Outcome
Total Duration	80 years
Compensation	\$ 40 million
Perm. Jurisdiction	20 Issues
US Defense Rights	98 percent
Expansion Option	
a. Years	15
b. Routes	3rd Lock
Panama Defense Role	10 percent
Temp. Jurisdiction	10 years
US Military Rights	60 percent
Land and Water	40 percent
US Utility	79
Panamanian Utility	40
Joint Utility	119

no more than 40 percent of the Canal Zone, pays no more than \$40 million in compensation, etc., then—using the curves and issue weights—the utility of such an agreement can be determined.

Model Panamanian Agreement

We judge that for psychological reasons, it will be hard for Panama to let the treaty covering the present canal extend beyond the year 2000. Since the expansion of the present canal or construction of a sea-level one might not start for 20 years, and could take an equal amount of time to complete, the Panamanians might accept a total duration of around 45 years. Panamanian governments have long felt that the direct compensation they receive from the canal is far below what it should be. They are clearly unwilling to settle for the approximately \$25 million offered in 1967. With the combination of annuity, license fees, taxes, and payment for bases under a status-of-forces agreement, they are likely to insist on an annual payment of at least \$75 million. The Panamanians want to reduce as much as possible the signs of the official US presence in the canal area, and are likely to feel that many of the 32 sub-

issues the US wants to retain under the rubric "permanent jurisdiction" in fact serve to prolong this presence. They may also object that several of the 32 jurisdictional elements restrict economic opportunities for Panamanians.

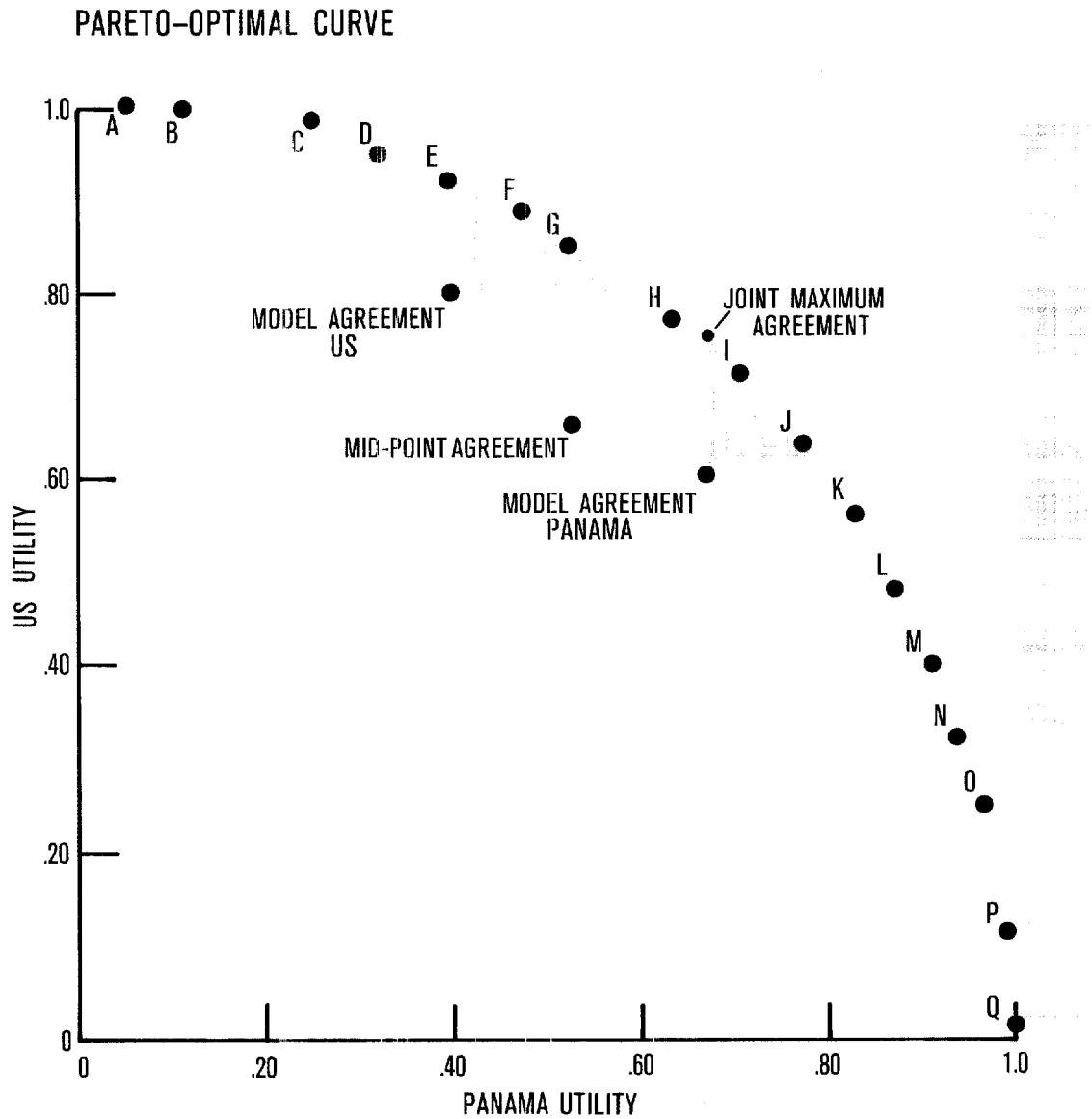
In the area of US defense rights, the Panamanians are mainly interested in obtaining a precise definition of the rights, as well as some reduction. If they can get language in the treaty clearly specifying US defense rights, they may be willing to accept only a 25-percent reduction in terms of men, material, and money. Panama's objections in the area of US military rights—those not directly related to defense of the canal—may be in part overcome by US offers of increased compensation. Thus, a 25-percent cut might satisfy them. The Torrijos government appreciates that expansion of the present canal will almost certainly be necessary within the next 50 years, and it recently has begun to study in detail the implications of this need. Because the Panamanians strongly object to the prospect of dividing the country again, they probably will not accept the option of construction of a sea-level canal along Route 10. Expansion of the present canal or construction of a sea-level one on its site do not pose this difficulty, however, and either may be acceptable. Since the Panamanians want a basic treaty covering the present canal to last no longer than the end of this century, they need a decision on expansion within this time frame, and would like one within 15 years.

The transfer to Panama of the 32 elements of what we have called temporary jurisdiction will be among the first evidence the Panamanian public would see after the signing of a new treaty, and therefore Torrijos is anxious to get as many of these as soon as possible. On this point, the Panamanians are likely to hold closely to the five-year deadline they have put forth in earlier negotiations.

The Panamanian side claims that most of the land and water in the present Canal Zone is not essential to the operation and protection of the canal, and that Panama needs these "non-essential" areas for expansion. In fact, however, the land Panama really needs to permit urban growth is limited to a relatively small area bounding Colon on the north and Panama City on the south. It wants the remaining territory mainly to bolster its claim to sovereignty. The Panamanians might be

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Model Panamanian Agreement

Issue	Outcome
Total Duration	45 years
Compensation	\$ 75 million
Perm. Jurisdiction	25 issues
US Defense Rights	75 percent
Expansion Option	
a. Years	15
b. Routes	14/3rd Lock
Panama Defense Role	40 percent
Temp. Jurisdiction	5 years
Land and Water	50 percent
US Utility	60
Panamanian Utility	66
Joint Utility	126

willing to accept a US offer to transfer about 40 to 50 percent of the present total area of the Zone.

This appraisal of the Panamanian position enables the outline of a Model Panamanian Agreement to be drawn up.

Pareto-Optimal Solutions

From these two model agreements, both the US and Panama could improve their positions by moving out to the pareto-optimal curve. The chart on page 28 shows the model agreements and the areas on the pareto-optimal curve to which they could be moved to obtain greater utility at no loss to the other side. For the US, the range of agreements lying on the pareto-optimal curve indicated by the blue-shaded area are E, F, and G. All three have greater utility for the US; in addition, the latter two are also better for Panama.

The advantages for the US in moving to an agreement on the pareto-optimal curve are evident. Agreements E, F, and G all meet the US basic goal of retaining 100 percent of present canal defense rights. The US would gain 31 or 32 of the issues under perma-

	MODEL US AGREEMENT	AGREEMENT E	AGREEMENT F	AGREEMENT G
Issue	Outcome			
Total Duration (<i>years</i>)	80	90	90	49
Compensation (<i>million \$</i>)	40	95	95	95
Perm. Jurisdiction (<i>issues</i>)	20	32	31	31
US Defense Rights (<i>percent</i>)	98	100	100	100
Expansion Option				
a. Years	15	35	35	35
b. Routes	3rd Lock	14/3rd Lock	14/3rd Lock	14/3rd Lock
Panama Defense Role (<i>percent</i>)	10	45	50	50
Temp. Jurisdiction (<i>years</i>)	10	10	10	10
US Military Rights (<i>percent</i>)	60	80	80	80
Land and Water (<i>percent</i>)	40	25	42	43
US Utility	79	92	88	85
Panamanian Utility	40	40	48	52
Joint Utility	119	132	136	137

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ment jurisdiction, compared with only 20 in the Model US Agreement. US retention of Military Rights would also go up from 60 percent to 80 percent. In the area of expansion of the canal, by moving out to the curve, the US would obtain the maximum, 35-year, period it wants to decide on whether and how to expand, and would also have the choice of two routes instead of only one. Agreement E would provide for the US to give up only one fourth of the present land and water area of the canal, while F and G call for transferring to Panama only a little more than the Model Agreement. All three allow the US the same ten years to complete transfer of the items under the category Temporary Jurisdiction that the US Model Agreement does. Under agreements E and F, the duration of the treaty would be extended 9 or 10 years from the 80 years in the US Model Agreement, but would drop to 49 years under Agreement G. The principal improvement in Panama's position under the three agreements is in the form of greater compensation—\$95 million, compared with \$40 million under the Model US Agreement—and in an expansion of its role in canal defense—around 50 percent rather than the 10 percent under the US Model. This reflects the

fairly low weight that, in our appraisal, the US gives to these two issues.

It is not suggested that agreements E, F, and G are the only alternatives to the Model US Agreement or that any of them would necessarily be acceptable and form the basis of a new treaty. Indeed, we feel that Panama would be more likely to hold out for an agreement such as those derived from moving to the pareto-optimal curve from its own Model Agreement. This area, shaded in gray in the chart, includes the Joint Max Agreement and agreements I and J.

All three of these possible agreements would go far in meeting Panama's most important objectives: a short treaty, rapid acquisition of a large portion of the present Canal Zone, and a major role in the defense of the canal. They would obtain control of the canal by the year 2000 take over immediately nearly one half of the land and water presently included in the Zone, and assume right away one half of the role of defending the canal. The three agreements would also satisfy Panama's desire to obtain within five years all of the elements under temporary jurisdiction. Panama would obtain close to the maximum monetary goal we have posited—an annual \$100 million. All of the agreements would also meet Panama's desire to exclude the option

Issue	JOINT MAX AGREEMENT		
	AGREEMENT I	AGREEMENT J	
	Outcome		
Total Duration (<i>years</i>)	25	26	26
Compensation (<i>million \$</i>)	96	95	95
Perm. Jurisdiction (<i>issues</i>)	28	29	17
US Defense Rights (<i>percent</i>)	100	100	100
Expansion Option			
<i>a. Years</i>	25	26	26
<i>b. Routes</i>	14/3rd Lock	14/3rd Lock	14/3rd Lock
Panama Defense Role (<i>percent</i>)	50	50	50
Temp. Jurisdiction (<i>years</i>)	5	5	5
US Military Rights (<i>percent</i>)	79	80	63
Land and Water (<i>percent</i>)	55	43	53
US Utility	72	70	63
Panamanian Utility	68	70	77
Joint Utility	140	140	140

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of expanding canal capacity by building a sea-level canal along the present course of Route 10, which would physically divide the country anew. To secure these advantages, Panama would need to permit the US to retain all the canal defense rights it now possesses. Under the Joint Max Agreement and Agreement I, the US would also retain all the canal defense rights it now possesses. Under the Joint Max Agreement and Agreement I, the US would also retain about 80 percent of its present military rights not directly related to canal defense. Under Agreement J, however, this would drop to only about 63 percent. The principal Panamanian concession under all three agreements would be to grant the US a period of at least 25 years to make a decision on canal expansion. Since we believe this is one of the issues to which Panama gives low rank, it might be used as a tradeoff for getting a better deal on another, higher rated issue. Signing the Joint Max Agreement or Agreement I would also require the Panamanians to let the US retain nearly all the 32 elements under Permanent Jurisdiction. Since both sides give high priority to this issue, it is likely to be one of the most difficult to iron out. On this issue, Panama may well take a position such as indicated in Agreement J, which would mean giving the US only about one half of the elements under Permanent Jurisdiction.

Agreement H lies about mid-way between the two shaded areas on the pareto-optimal curve and might serve as a compromise between the two positions. This agreement seems to meet the US desire for retaining extensive defense rights, military rights, and elements of permanent jurisdiction. It also provides for a reasonably long period—25 years—to decide on expansion of the canal, and gives a choice of two routes if the decision to expand is made.

Under Agreement H, Panama would come close to meeting the goal of obtaining the canal by the end of the century; would immediately obtain 43 percent of the land and water presently included in the Canal Zone; and would gain the maximum \$100 million an-

Agreement H	
Issue	Outcome
Total Duration	27 years
Compensation	\$ 95 million
Perm. Jurisdiction	31 issues
US Defense Rights	100 percent
Expansion Option	
a. Years	27
b. Routes	14/3rd Lock
Panama Defense Role	50 percent
Temp. Jurisdiction	10 years
US Military Rights	80 percent
Land and Water	43 percent
US Utility	76
Panamanian Utility	63
Joint Utility	139

nual compensation. The ten-year period for transfer of the elements of temporary jurisdiction is near the midpoint between the positions of the two sides on the issue. In terms of utility, Agreement H would represent for both sides only about a three-point drop in the utility they would have from the position set out in their model agreements, while in each case improving the deal for the other side and thereby improving the chances of selling the pact.

Evidently, Agreement H is not "the solution" to the problem of devising a treaty satisfactory to both sides; there are certain parts of it that neither side may be able to accept. Our objective is to present a way of looking at the problem rather than a solution. The model's value lies in the fact that it is dynamic; that it allows the analyst to plot the changes in the position of the other

	MODEL US AGREEMENT	MODEL PANAMANIAN AGREEMENT	AGREEMENT H
US Utility	79	60	76
Panamanian Utility	40	66	63
Joint Utility	119	126	139

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side, and permits the policy maker to make shifts in his weighting of the elements on his own side as well as his opponent's. It forces the user to be rigorous in his thinking; if he wants more on one issue, the model can show how much he may need to give up on others. It can also illustrate for him the gap between his position and that of the other side, suggest how the gap can be reduced, and indicate in which direction each side is in fact moving over a period of time. Moreover, constraints can be plugged into the model. In this paper, for example, it was necessary to stipulate that the period to decide on

expansion of the canal could not exceed the duration of the basic treaty.

This analysis represents our best judgments as of mid-July. As information changes, as positions become more clearly defined, it is a relatively simple matter to revise the analysis using this method. The issues can be revised and reweighted, the bargaining ranges specified, and the curves redrawn. The implication of the new weights and curves can be quickly determined and evaluated.

GLOSSARY

pareto-optimal - describes situations in the distribution of some desired good from which no one individual can be made better off without making someone else worse off. Essentially, it is an efficiency criterion, eliminating waste, but not concerned about the equality of the distribution.

util - in the study of policy options, an artificial measure of utility.

utility - psychic satisfaction derived from consumption or gain. Utility is a subjective, personal value. It is not the same as "usefulness" in the functional sense—a painting, for example, may not be useful, but it may clearly afford satisfaction.

utility analysis - a study designed to determine the satisfactions to be gained from various outcomes. It can be used to predict how happy two parties to a bargaining situation will be with each possible resolution of the issues. It is generally not predictive in the sense of telling what sort of arrangement ultimately will be reached, but it does focus attention upon the relative importance that the two sides attach to each issue, and the trade-offs among them.

weighting - A ranking of observations according to their importance or some other criteria, before computations are made.

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